



## INVESTMENT STATEMENT

for the Issue of First Ranking and Second Ranking Secured Debt Instruments



**INVESTMENT STATEMENT FOR THE ISSUE OF  
FIRST RANKING AND SECOND RANKING SECURED  
DEBT INSTRUMENTS**

**DATED 2 NOVEMBER 2009**

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### Important Information

(The information in this section is required under the Securities Act 1978)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

#### Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

#### Engaging an Investment Adviser

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- (a) relevant experience and qualifications, and whether dispute resolution facilities are available to you; and
- (b) what types of investments the adviser gives advice about; and
- (c) whether the advice is limited to investments offered by one or more particular financial institutions; and
- (d) information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, and adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- (e) any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include:

- (a) the nature and level of the fees you will be charged for receiving the advice; and
- (b) whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

***Important Note:*** *The Company has a guarantee under the New Zealand deposit guarantee scheme. This guarantee expires on 12 October 2010. Accordingly, any principal and interest payments that become payable to holders of Debt Instruments after this date will not have the benefit of the guarantee (unless the Company obtains cover under the extended deposit guarantee scheme). See the "What returns will I get?" section of this Investment Statement under the subheading "Crown Deed of Guarantee" for further information about the extended guarantee scheme.*

**Securities Regulations 2009:** In accordance with Regulation 52 of the Securities Regulations 2009, the Company has elected that the Securities Regulations 1983 apply to this offer.

## Directory

### **Issuer**

Mutual Credit Finance Limited

### **Directors**

**John A Wheelans** BCom, CA(PP)

Chartered Accountant

1 Helmores Lane

Christchurch

**John W Wheelans** CA (Retired)

Company Director

62 Rugby Street

Christchurch

**Andrew M Oorschot** BCom, CA(PP), CMA

Chartered Accountant

15 Jane Deans Close

Christchurch

**Peter Rae** F.C.A., A.F.N.Z.I.M.

Company Director

5 Westridge

Scarborough

Christchurch

### **Chief Executive Officer**

David Tier CA

### **Trustee**

Trustees Executors Limited

Level 5

10 Customhouse Quay

PO Box 3222

Wellington

### **Registered Office**

Ashton Wheelans & Hegan Limited

Level 4

127 Armagh Street

Christchurch

### **The Registrar of Debt Instruments and location of register**

Mutual Credit Finance Limited

P O Box 13 042

Level 5

127 Armagh Street

Christchurch

Telephone: 03 968 8808

Facsimile: 03 968 8804

Email: [contactus@mcf.co.nz](mailto:contactus@mcf.co.nz)

### **Banker**

ANZ National Bank Limited

164 Hereford Street

Christchurch

### **Auditor**

PricewaterhouseCoopers

Level 12

119 Armagh Street

Christchurch

### **Solicitor**

Chapman Tripp

Level 7

119 Armagh Street

Christchurch

Lane Neave

Level 15

119 Armagh Street

Christchurch

**Summary of Financial Statements for Mutual Credit Finance Limited<sup>1, 2, 3</sup>**

<b>INCOME STATEMENT</b>	<b>Years ended 31 March (Audited)</b>					
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(\$'000s)</b>	<b>(\$'000s)</b>	<b>(\$'000s)</b>	<b>(\$'000s)</b>	<b>(\$'000s)</b>	<b>(\$'000s)</b>
	<b>NZ IFRS</b>	<b>NZ IFRS</b>	<b>NZ IFRS</b>	<b>NZ FRS</b>	<b>NZ FRS</b>	<b>NZ FRS</b>
Total Operating Revenues	2,523	3,732	4,841	4,701	4,115	4,551
<u>LESS Interest Expenses</u>	<u>1,421</u>	<u>1,756</u>	<u>2,343</u>	<u>2,249</u>	<u>1,920</u>	<u>1,906</u>
<i>Gross Operating Surplus</i>	1,102	1,976	2,498	2,452	2,195	2,645
Other Operating Expenses	1,215	1,682	1,967	1,823	866	1,046
Impaired Asset Expenses	1,681	901	443	443	899	1,496
Subvention Payment	-	-	-	-	-	-
<i>Net Surplus before Taxation</i>	(1,794)	(607)	88	186	430	103
Taxation	(520)	(142)	55	133	239	53
<i>Net Surplus After Taxation</i>	(1,274)	(465)	33	53	191	50
Dividends Paid <sup>4</sup>	-	-	-	-	260	1,000
<b>Retained Surplus (Deficit)</b>	<b>(1,274)</b>	<b>(465)</b>	<b>33</b>	<b>53</b>	<b>(69)</b>	<b>(952)</b>
<b>Dividend per Share</b>	Nil	Nil	Nil	Nil	\$0.10	\$0.53

**BALANCE SHEET**

Total Tangible Assets	18,958	18,389	26,807	26,726	35,953	25,238
Total Intangible Assets	487	417	254	290	537	380
Total Assets	19,445	18,806	27,061	27,016	36,490	25,618
<u>LESS Total Liabilities</u>	<u>16,948</u>	<u>15,035</u>	<u>22,825</u>	<u>22,581</u>	<u>32,108</u>	<u>23,767</u>
<b>Total Shareholders Equity</b>	<b>2,497</b>	<b>3,771</b>	<b>4,236</b>	<b>4,435</b>	<b>4,382</b>	<b>1,851</b>

**NOTE 1**

The above figures have been taken from audited financial statements of the Company<sup>5</sup>.

**NOTE 2**

NZ IFRS is the New Zealand International Financial Reporting Standards that applied from 2008 (with 2007 comparatives restated). NZ FRS is the New Zealand Financial Reporting Standards that applied until 2007.

**NOTE 3**

There were no extraordinary items in the 5 years referred to in this financial statement summary.

**NOTE 4**

The 2006 dividend of an amount of 10 cents per share was calculated based on the 2,600,000 ordinary shares on issue at the time the dividend was declared. The 2005 dividend was a non-cash dividend declared to convert retained earnings to share capital prior to the introduction of new ordinary shareholders.

**NOTE 5**

**The auditor's report on the 31 March 2009 financial statements (set out at Appendix 3 to the Prospectus) refers to a fundamental uncertainty. For further information see the Liquidity Risk section of this Investment Statement on page 17 under the heading "What are my risks?".**

## **Introduction**

This is an Investment Statement for the purposes of the Securities Act 1978.

The purpose of the Investment Statement is to provide information that may assist an investor to decide whether or not to invest in First Ranking Secured Debt Instruments and/or Second Ranking Secured Debt Instruments issued by Mutual Credit Finance Limited. In addition to the information set out in this Investment Statement, there is a registered prospectus dated 2 November 2009 relating to the securities offered under this Investment Statement. You are entitled to a copy of that prospectus on request.

The following information is provided to investors under Schedule 3D of the Securities Regulations 1983. The information is very important and should be read carefully before making an investment decision.

## **Address from the Directors**

Following the introduction of the New Zealand deposit guarantee scheme in October 2008, the directors adopted a prudent approach and began to accumulate cash reserves and repay bank debt. However, with the improvement in the economy, the Company has implemented a strategy of controlled and prudent growth. The Company's robust approvals and credit application process significantly reduces the risk of defaulting loans and stands the Company in good stead through the current period of challenging economic trading.

Mutual Credit Finance's portfolio is diversified across a range of commercial and business loans, consumer lending, residential and commercial development to limit exposure in any one sector. Mutual Credit Finance has also recently acquired the residual gaming trust loan book from the Receivers of Mascot Finance Limited. This was a strategic move to secure a presence in a new sector, to further diversify the receivables book and to more closely align the Company's liquidity maturities. The residual gaming trust loan book is good quality principal and interest lending and the average term of the loans will mature prior to the expiry of the present New Zealand deposit guarantee scheme.

The directors have in recent months appointed a new chief executive with significant financial and property experience together with an experienced lending manager. Those executives have reviewed the internal systems and controls in place, implemented new loan assessment and approval processes and delegated authorities and developed a formal risk management programme as required by the new regulations for the industry.

As of 1 March 2010, under the amendments to the Reserve Bank of New Zealand Act 1989 all deposit takers with deposits of more than \$20,000,000 are required to have a Credit Rating. Presently, the Company does not meet this threshold and is therefore not required to have a Credit Rating. Just recently, the government has announced an extension to the deposit guarantee scheme from 12 October 2010 through until 31 December 2011. The terms of this extension are somewhat different to the deposit guarantee scheme the Company is currently covered by and the Directors are currently working through the requirements of this guarantee extension but are not currently eligible to apply for cover under the extended scheme. If the Company does meet the entry criteria prior to 12 October 2010, there can be no assurance that the Company will be accepted for entry into the extended scheme.

The directors are expecting a significant improvement in trading results compared to the loss that was incurred for the year ended 31 March 2009. The holding costs of the cash reserves referred to earlier, combined with a rise in bad debts and provisioning, resulted in this loss being incurred; however, this loss has been absorbed by shareholders and the Company continues to comply with its trust deed ratios and covenants.

The directors seek your support to this offering and thank you for your continued support of the Company.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Andrew M Oorschot', with a long horizontal stroke extending to the right.

Andrew M Oorschot

Dated: 2 November 2009

## Definitions

In this Investment Statement:

*Companies Act* means the Companies Act 1993;

*Company* means Mutual Credit Finance Limited;

*Debt Instrument Holders* means all persons at a particular time that hold secured debt instruments issued by the Company whether issued under the Prospectus or earlier or subsequent prospectuses and whether first ranking or second ranking;

*Debt Instruments* means any and all secured debt obligations by whatever name called, constituted and issued by the Company pursuant to the Trust Deed (whether under the Prospectus or earlier or subsequent prospectuses) and for the time being outstanding and uncanceled and includes First Ranking Debt Instruments, Second Ranking Debt Instruments and Variable Secured Debt Instruments;

*First Ranking Debt Instruments* means first ranking Debt Instruments issued by the Company, which shall rank in priority to Second Ranking Debt Instruments;

*Investment Statement* means the investment statement dated 2 November 2009 relating to the Debt Instruments offered under the Prospectus;

*Prospectus* means the Prospectus dated 2 November 2009 relating to the issue by the Company of up to \$20,000,000 of First Ranking Debt Instruments and up to \$20,000,000 of Second Ranking Debt Instruments (as amended from time to time in accordance with the Securities Act);

*Securities Act* means the Securities Act 1978;

*Second Ranking Debt Instruments* means second ranking Debt Instruments issued by the Company, which shall rank in priority immediately after the First Ranking Debt Instruments;

*Securities Regulations* means the Securities Regulations 1983;

*Trust Deed* means the debenture trust deed dated 1 February 1985 between Westgold, Brown Walters and Company Limited and Trustees Executors Limited (under its former name The Trustees Executors and Agency Company of New Zealand Limited) as subsequently varied by a Variation Deed dated 5 March 1999 and a deed of variation of debenture trust deed dated 12 December 2005;

*Trustee* means Trustees Executors Limited;

*Variable Secured Debt Instrument* means a First Ranking Debt Instrument issued as security for fluctuating amounts of present or future liabilities (as at the date of this Investment Statement, no Variable Secured Debt Instruments were on issue);

*Westgold* means Westgold Finance Limited which amalgamated with Mutual Credit Finance Limited on 31 March 2006, with Mutual Credit Finance Limited continuing as the amalgamated company.

All legislation referred to in this Investment Statement can be viewed online at [www.legislation.govt.nz](http://www.legislation.govt.nz).

## What sort of investment is this?

This Investment Statement relates to \$40,000,000 of debt securities being offered by the Company, being interest bearing investments in up to:

- \$20,000,000 of First Ranking Debt Instruments; and
- \$20,000,000 of Second Ranking Debt Instruments.

### Type of Investment

Investors can select to subscribe for either First Ranking Debt Instruments or Second Ranking Debt Instruments (or a combination of both).

If no clear selection is made by an investor on the Application Form accompanying the Investment Statement for this issue, the investment will be held unsecured on the Company's then current "on call" interest rate until instructions are received from the investor.

The directors may close the issue of First Ranking Debt Instruments or Second Ranking Debt Instruments (or both) at any time. Investors whose applications for a closed issue are lodged on or after the date of closure will be promptly advised by the Company of the closure and offered the opportunity to subscribe instead for an available alternative type of Debt Instrument (if applicable). If the investor declines or does not reply within 14 days of the Company's advice, the subscription moneys relating to the closed issue will be refunded in full with interest, calculated at the Company's then current call rate.

### Security for the Debt Instruments

The Debt Instruments are issued pursuant to the Trust Deed and are secured by a security interest over all of the assets of the Company in favour of the Trustee for the benefit of the Debt Instrument Holders. The security interest is first ranking subject only to prior charges permitted under the Trust Deed, fees, expenses and other amounts owed to the Trustees and other interests given preference by law such as claims for liquidation costs, taxes, and employees' wages.

As at 31 March 2009, the only security interest which ranks ahead of the security interest granted in favour of the Trustee for the benefit of the Debt Instrument Holders, is a security interest over all the assets of the Company granted to ANZ National Bank Limited which secures all the Company's obligations to ANZ National Bank Limited. The only facility that the Company has with ANZ National Bank Limited is a \$500,000 overdraft facility. As at the date of this Investment Statement, no amounts were drawn down by the Company under such overdraft facility.

Further, by virtue of a deed of priority between the Company, ANZ National Bank Limited and the Trustee, the amount for which the security interest granted to ANZ National Bank Limited has priority ahead of the security interest granted in favour of the Trustee for the benefit of the Debt Instrument Holders is limited to \$500,000 plus 24 months' interest and costs.

## Who is involved in providing it for me?

### Issuer

Mutual Credit Finance Limited is the issuer and promoter of the Debt Instruments offered in this Investment Statement. Its address is 4<sup>th</sup> Floor, 127 Armagh Street, Christchurch.

## **Trustee**

Trustees Executors Limited is the Trustee of the Debt Instruments for the purposes of the Securities Act 1978. Its address is Level 5, 10 Customhouse Quay, Wellington.

## **Activities of the Company**

### *The history*

Mutual Credit Finance Limited commenced business in December 1956 (as Mutual Credit Corporation Limited) initially offering hire purchase discount facilities to a select group of Christchurch based motor vehicle dealers. Gradually the Company's lending activities expanded into other industry sectors including commercial property and business plant and machinery.

The Company has enjoyed a long association with Ashton Wheelans & Hegan, a Christchurch based accountancy practice, and its associated client base. It was this relationship which allowed the Company to achieve significant growth.

This growth provided the Company with the impetus needed to move into a new phase of development and growth. From 2005, the business focus of the Company changed from predominantly motor vehicle dealers and consumer lending on motor vehicles to other business lending and property related consumer lending.

### *Amalgamation with Westgold Finance*

In 2006, Mutual Credit Finance Limited and Westgold Finance Limited amalgamated pursuant to section 222(1) of the Companies Act 1993 with Mutual Credit Finance Limited continuing as the amalgamated Company.

The business philosophies and operational structures of Mutual Credit Finance and Westgold were complementary with the business plans of both organisations meeting common controlled growth aspirations without compromising the quality of the Company's lending criteria policies.

### *Current market environment*

The 36 months preceding the date of the Prospectus have seen considerable change to the finance company landscape, with a number of businesses within the sector collapsing, or seeking moratoriums and orderly wind downs.

Many of these failings have been attributed to liquidity shortfalls, meaning that investor monies to be paid out have been greater than loan repayments due in. This mismatch of funds places pressure on a business' liquidity to the point that if not effectively managed can cause distress.

The management of Mutual Credit Finance Limited continue to monitor and manage its liquidity. Since the introduction of the Crown Deposit guarantee scheme and the acceptance of the Company into this scheme, the Company has repaid all its bank loan facilities and has built up its cash reserves. In conjunction with a reinvestment rate which the directors believe is strong in the current climate (the Company's average reinvestment rate for First Ranking Debt Instruments was 78.5% for the period between 1 April 2009 and 31 August 2009), along with the majority of the Company's borrowers meeting scheduled loan repayments, the Company remains well placed to continue to honour all its obligations as they fall due.

As with the financial year ended 31 March 2008, the economic climate necessitated an increase in the allowance for impairment (provision for doubtful debts) in the Company's financial statements as at 31 March 2009. This increase in provision and a drop in interest revenue from a declining receivables book are the predominant causes of the income

statement showing a loss after tax of \$1,273,553 (compared with a loss after tax of \$465,182 for the year ended 31 March 2008).

The Company continues to monitor the level of arrears of its borrowers and the amount of provisioning it makes to cover these arrears.

#### *Purpose of this issue*

The purpose of this issue of Debt Instruments is to help fund the current Company's business and fund selected quality lending opportunities as they arise.

In order to provide the Company with flexibility in its funding sources in the current uncertain economic climate, the Company is now offering both First Ranking Debt Instruments and Second Ranking Debt Instruments under this Investment Statement. The different types of Debt Instrument on offer under this Investment Statement provide investors with a choice of risk and reward and provide the Company with more flexibility to respond to funding opportunities as they arise.

#### *Activities of Mutual Credit Finance Limited prior to amalgamation*

Mutual Credit Finance Limited was established in 1956 as Mutual Credit Corporation Limited and changed to the present name in October 2001 to better reflect the type of business it conducted. Initially, the Company's sole business was offering hire purchase discount facilities for selected motor vehicle dealers. While this remains a business activity, the Company experienced considerable growth in recent years as its lending activity diversified and expanded. The Company's loan portfolio immediately prior to amalgamation exceeded \$25 million and included commercial and business loans, some residential development and plant and machinery finance. The Company's lending business is therefore now well spread over many sectors of industry and business.

#### *Activities of Westgold prior to amalgamation*

Prior to amalgamation, Westgold had been involved in the business of providing financing facilities to the public and for business purposes, primarily in the Canterbury region and had issued debt securities for this purpose since 1985.

Prior to amalgamation, the largest sector of Westgold's lending related to motor vehicle transactions including the provision of finance to purchasers of new and used motor vehicles through selected motor vehicle dealers and the provision of finance to motor vehicle dealers to finance vehicle stock. However, in early 2005 Westgold adopted a policy to move into the business lending market to provide secured financing to small and medium sized businesses. The aim of this policy was to reduce the concentration of receivable assets derived from motor vehicle lending.

## **How much do I pay?**

The minimum subscription amount for First Ranking or Second Ranking Debt Instruments under this Investment Statement is \$5,000. The maximum subscription amount is \$2,000,000. Otherwise investors may select the amount of Debt Instruments that they wish to subscribe for.

Applications for Debt Instruments must be made on the application form included with this Investment Statement. Payment in full must accompany all applications. Payments are to be made to Mutual Credit Finance Limited by cheque crossed "*not transferable*" and posted or delivered to:

The Finance Manager  
Mutual Credit Finance Limited  
Level 5  
127 Armagh Street  
PO Box 130 178  
Christchurch 8141

Under the Financial Transactions Reporting Act 1996, any new applicant with the Company may also need to produce evidence of identity.

The Company reserves the right to refuse any application in whole or in part in which case monies will be refunded without interest.

## **What are the charges?**

### **Types of charges**

Other than the subscription amount of the Debt Instruments and an early repayment charge, there are no fees or charges payable by an investor for Debt Instruments.

A charge may be payable by an investor for early repayment of the investment in the form of a reduced rate of interest of up to 4% per annum from the interest rate that was originally payable on the investment calculated over the term of the investment. Early repayment will only be permitted by the Company in exceptional circumstances such as extreme financial hardship, emergency, the death of an investor or similar circumstances. As at the date of this Investment Statement, the Company's policy is to permit trustees of superannuation funds to withdraw in any calendar year up to 25% of the amount invested (subject to payment of the early repayment charge).

Any fees or expenses payable to the Trustee and all expenses of this offer are to be paid by the Company. In addition, any brokerage payable is paid by the Company, not by the investor. The brokerage rates are set out in the Prospectus.

### **No ability to alter charges**

During the term of the investment the Company cannot introduce any new fees or charges that can or may affect the return on the investment or change the amount chargeable for early repayment as set out above.

### **Amount of charges**

The amount of the early repayment charge referred to above cannot be calculated until an investor makes an application for early repayment. On request the Company will provide any investor who is considering early repayment full details of the early repayment charge as at a specified date.

## **What returns will I get?**

### **Amount of charges**

The return to investors investing in Debt Instruments will be the interest rate payable on that investment applying at the date of application by the investor. The key factors that will determine what an investor's returns will be are:

- the interest rate the investor selects (available rates depend on term, amount and type of investment);
- the interest payment option that the investor selects;

- the amount of the investor's investment;
- the term of the investor's investment; and
- any tax payable on the interest earned.

No amount of returns are quantifiable as at the date of this Investment Statement and therefore cannot be promised by the Company. However, once the terms and conditions of any investment (including any principal amount of and the interest rate applicable to the investment) has been agreed between the Company and an investor, those terms and conditions will be legally enforceable by the investor.

### **Taxation**

The return to an investor may be affected by the deduction of withholding taxes. There is a requirement for the Company to deduct withholding tax in accordance with applicable law from the gross interest payable to an investor unless an investor has provided to the Company a valid certificate of exemption from the Inland Revenue Department. The current resident withholding tax rate is 19.5%, 33% or 38% depending on each investor's personal circumstances, with a non declaration rate of 39% applying to those investors who do not advise the Company of their IRD number.

Draft legislation has been introduced to align RWT with personal income tax rates with effect from 1 April 2010. If the Bill providing for the new RWT rates is passed in its current form the available RWT rates will be 12.5%, 33% and 38% for individuals. The default rate for individuals who do not specify a particular rate will change from 19.5% to 38%, although a 21% rate will apply for 1 year for existing deposits. For companies, the RWT rate will change from 33% to 30% which will be optional from 1 April 2010 and compulsory from 1 April 2011.

For non-resident investors, non-resident withholding tax is deducted instead of resident withholding tax. However, as the Company is an IRD Approved Issuer, the investor may instruct the Company to deduct the Approved Issuer Levy which is currently 2% instead of non-resident withholding tax.

### **Payment options**

Investors can elect on the application form whether interest will be paid to the investor or compounded on the investment. Interest is payable on a quarterly basis on the last days of March, June, September and December each year and on the maturity date of the investment. In the event that investors wish interest to be paid to them, such payment will be made by the Company by either direct credit or cheque, depending on the investor's instructions on the application form. Investments received within 7 business days of the interest payment dates will have the interest due to that date credited to the investor or paid to the investor (as the case may be) on the next interest payment date. Investors will receive a statement in respect of their investment at the end of every quarter.

The principal sum of the investment is repayable by the Company at the end of the term selected by the investor.

Payment may be withheld by (or with the consent of) the Trustee in the circumstances permitted by the Trust Deed (including where the amount of funds available for distribution pursuant to the Trust Deed is less than 10% of the aggregate amount outstanding under the Debt Instruments, unsecured debt instruments and subordinated debt instruments issued by the Company). In addition, the terms and conditions of any Debt Instrument may be varied by agreement between the Company and an investor provided that variation is not inconsistent with the Trust Deed.

## **Maturity of investment**

Prior to your investment maturing you will be advised of the maturity date and given the option to either have your investment repaid to you or reinvested for a further period. If you choose to reinvest for a further period you will be asked to sign a reinvestment form and decide on a term, rate of interest (from those applying at the time of reinvestment), interest payment option and type of investment.

If no advice is received from the investor the investment will continue to have the same security status as the Debt Instrument that has matured except that the investment will be held on the Company's then current "on call" interest rate until instructions are received from the investor.

## **Entity legally liable**

The Company is the only entity legally liable to pay interest on the investment and to repay the principal sum invested on maturity.

## **Crown Deed of Guarantee**

The Company has a guarantee under the New Zealand deposit guarantee scheme by virtue of entering into a Crown Deed of Guarantee with Her Majesty the Queen in right of New Zealand dated 21 November 2008. Further information about the deposit guarantee scheme is available, free of charge, and at all reasonable times, on the internet site maintained by, or on behalf of, the Treasury. The most recent audited statement of financial position of the Crown is available, free of charge, and at all reasonable times, on the internet site maintained by, or on behalf of the Treasury.

The guarantee expires on 12 October 2010. Principal and interest amounts that become payable to Debt Instrument Holders after this date will not have the benefit of such guarantee (unless the Company has cover under the extended deposit guarantee scheme).

It has recently been announced that the guarantee scheme will be extended from 13 October 2010 to 31 December 2011 but that the extended scheme will in effect be a new scheme with new entry criteria. In particular, entities are required to reapply if they wish to participate in the extended scheme and not all entities currently covered by the existing New Zealand deposit guarantee scheme will be eligible for cover under the extended scheme.

Of relevance to the Company, entities with a credit rating of BB or higher can apply to participate in the extended scheme. The Company does not currently have a credit rating and is therefore not currently eligible for cover under the extended scheme. Accordingly, as at the date of this Investment Statement, the Company is considering and working through the new entry criteria.

Applications for cover under the extended scheme must be made prior to 12 October 2010 (when the current deposit guarantee scheme expires). If the Company does meet the entry criteria prior to 12 October 2010, there can be no assurance that the Company will be accepted for entry into the extended scheme.

The Company expects reinvestment rates and new investment rates to be impacted if the Company does not obtain cover under the extended New Zealand Deposit Guarantee Scheme. The Company has forecasted that it requires reinvestment rates to remain at approximately 50% in the next 12 months to remain cashflow positive. The First Ranking Debt Instrument reinvestment rate for the financial year ended 31 March 2009 was 52.5% while the First Ranking Debt Instrument rate from 1 April 2009 to 31 August 2009 was 78.5%.

## No other guarantee

Other than the guarantee under the New Zealand deposit guarantee scheme, there is no guarantor of the Debt Instruments offered under this Investment Statement.

## What are my risks?

### Principal risk

The main risk to investors is that they may not be able to recover the full amount of the principal sum invested and/or the interest payable on the principal sum. This could happen for a number of reasons including as a result of any of the risks set out below.

### Standard Risks

The Company is exposed to the standard risks faced by other finance companies. These standard risks include the following matters:

#### **Credit risk**

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is a major risk for the Company's business. Credit risk exposure arises principally in advances made to the Company's customers that are classified as receivables and deposits held with other entities. There is also credit risk in off-balance sheet financial instruments such as loan commitments.

Approximately \$4.8 million of the Company's loan book as at 31 March 2009 was classified as non-performing (past due and impaired) loans (see note 10 to the Financial Statements for more information). As at 31 March 2009 the Company has made an allowance of approximately \$1.6 million for impaired loans. Since 31 March 2009, of the \$4.8 million of the non-performing loans, \$1.1 million of such loans have been written off and \$1.3 million are now current or have had payments made against them. As a result, the Company made full allowance for the loans that were written off. As at 31 August 2009, \$2.4million of the Company's loan book was non-performing, with a corresponding reduction in the allowance to \$0.57million made against these loans.

The Company manages credit risk in a number of ways:

- A delegated authorities schedule has been approved by the board which clearly identifies the discretionary loan approval limits and the threshold for loans requiring board review and approval;
- The Company has in place a robust credit policy detailing the steps and information required for the assessment of all credit applications. These policies are applied to establish the validity of the borrowing purpose and the integrity, financial performance and security position of the borrowing entity and individual guarantors;
- All lending is documented to evidence the terms and conditions of the advances made and to perfect any securities provided;
- Executives and directors all seek to have an understanding of the industry and the customer being funded;
- For consumer lending, the loan assessment process incorporates:
  - identification checks;
  - debt servicing ability verification;
  - credit and PPSR checks;
  - stability checks in both employment and residence;
  - loan to value guidelines; and
  - preferred security types and age guidelines.
- For commercial lending, the loan assessment process incorporates:

- credit checks on all parties involved in the advance;
  - PPSR and property title checks;
  - an analysis of financial statements for borrowers and guarantors; and
  - a full assessment of all securities provided including obtaining independent security valuations where appropriate.
- Maximum exposure limits to any one borrower/group are set by the Trust Deed;
  - The loan book is subject to ongoing and regular monitoring and review with regard to the borrower's ability to repay and the impact of changes in security value;
  - The financial accounting system identifies payment defaults on a daily basis;
  - Any loan that shows signs of deteriorating credit quality is actively managed;
  - An experienced and capable credit control team manage receivables and adhere to a written policy based on legislative requirements looking wherever possible to work with a client to maximise loan recovery; and
- There is regular comprehensive reporting to the Board including details of:
    - all new lending completed, advances approved and undrawn, prospective advances and loans declined/not proceeding;
    - a key exposure report detailing all individual and groups with exposures >\$100,000;
    - detailed analysis of all accounts in arrears;
    - asset quality reports prepared in accordance with NZ IFRS; and
    - loan impairment provisioning.

### ***Concentrations of credit exposure***

Concentrations of credit risk will exist if a number of customers are engaged in similar activities and are subject to similar economic conditions that would cause their ability to meet contractual obligations to be similarly affected by changes in these conditions. The Company's policy on limiting credit risk is through managing the counterparties with the largest exposure. The following concentrations of receivables are monitored on a monthly basis:

- Borrower/guarantor - individually and groups;
- Security Type;
- Geographical; and
- Industry.

Credit risk is discussed further at note 3(c) to the financial statements on page 53 of the Prospectus.

The Company will also undertake lending activities in accordance with the financial covenants set out in the Trust Deed (including exposure limitations). A summary of such covenants is set out on pages 16 to 17 of the Prospectus.

### **Interest Rate Risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may result in losses in the event that unexpected movements arise.

The Company manages interest rate risk by:

- regularly monitoring market interest rates and reviewing the impact of these on interest rate exposure;
- reviewing deposit and lending rates regularly;
- reviewing the maturity profile of assets and liabilities to ensure a matching of the profile of maturity;
- reviewing interest margins regularly; and

- limiting the number and value of advances made on fixed interest rate terms.

Management regularly monitors changes in the cost of Debt Instrument funds and the need to alter the interest rate on finance receivables. The interest rate exposure and interest margin is reported to and reviewed at the monthly meeting of the board. Interest rate risk is discussed further at note 3(a) to the financial statements on page 48 of the Prospectus.

The Company funds finance receivables from secured Debt Instruments, unsecured deposits and bank facilities. As a result, the main interest rate risk arises from short-term borrowings. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Company to fair value interest rate risk.

### **Interest Margin Risk**

The profitability of the Company is dependent upon maintaining a margin between the interest rate at which the Company borrows funds and the interest rate it charges to borrowers for those funds. The business has interest risks arising out of material changes in interest rates as if borrowing interest rates increased and the Company cannot increase the interest rates payable by the borrowers, this will materially reduce the profits of the Company. The Company from time to time undertakes fixed rate lending under which the Company is unable to reset interest rates which could put pressure on the Company's interest rate margin.

The Company manages the interest margin risk in a number of ways including the provision by management to the Directors of regular cost of fund reports and by regularly monitoring deposit and lending interest rates.

### **Liquidity Risk**

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due. This risk may arise from the mismatch of maturities of financial assets and liabilities or from significant amount of loan advances not repaid at the time they are due for repayment by the borrower. This risk may also arise from an inability to raise funds from the public in New Zealand financial markets and to secure investments from investors.

The Company manages liquidity risk by:

- daily monitoring of future cash flows and reinvestment rates to ensure requirements can be met and seeking to replenish funds as they mature or are borrowed by customers;
- regularly forecasting future cash flows to assess maturity mismatches between financial assets and financial liabilities in advance;
- structuring the majority of loans on a regular monthly repayment basis;
- maintaining a credit control function focused on encouraging clients to meet their loan repayments on time and as due;
- reducing the volume of new lending undertaken if required;
- regularly monitoring the investment markets;
- actively managing the relationship with the investor base;
- maintaining strong bank relationships and a bank overdraft facility; and
- monitoring balance sheet liquidity ratios against internal requirements.

Reporting to the board includes:

- A summary of new investments received;
- Reinvestment rates on a daily, 3 monthly and 6 monthly basis;
- Weighted average investment rates;
- Details of investments by depositor, size and maturity; and
- Cashflow forecasts covering 21 months.

The Auditor's Report in Appendix 3 to the Prospectus refers to a fundamental uncertainty in relation to short term liquidity relating to the Company's contractual maturities profile which has largely resulted from the reluctance of investors to invest beyond the period for which the Company has cover under the Crown Deed of Guarantee. If the Company has insufficient short term liquidity to meet its contractual maturity obligations, it may have to realise assets prior to their contractual maturity dates, which may or may not be realised at the carrying value in the balance sheet for such assets. In addition, as a result of any such sale, the Company may incur further liabilities such as payment of employee entitlement, lease exit costs and diminution of other assets on its balance sheet.

Liquidity risk is discussed further at note 3(b) to the financial statements on page 49 of the Prospectus. The Company maintains a minimum liquidity level of \$1,000,000 made up of \$500,000 cash plus a \$500,000 overdraft facility.

### **Profitability Risk**

The financial result for the financial year ended 31 March 2009 as disclosed on page 38 of the Prospectus shows an after tax loss of \$1,273,553 for the year (compared with an after tax loss of \$465,182 for the financial year ended 31 March 2008). The predominant causes of this difference was a reduction in interest income as a result of a lower receivables ledger and an increase in the allowance for impairment (a non cash adjustment) following a reassessment of the recoverability of loan receivables and the value of the underlying asset security given the current economic climate.

The Company continues to monitor on an on-going basis, the level of arrears of its borrowers and the amount of provisioning it makes to cover these arrears.

### **Regulatory Risk**

The Company operates in a highly regulated environment and substantial changes in laws and governmental policies could affect the Company's business and/or profitability. Proposed changes and regulatory reforms in the non-bank deposit taking sector are closely monitored by:

- Membership of Financial Services Federation and other industry groups;
- Regular review of newspaper, internet and other media outlets; and
- Regular correspondence with peers, solicitors, accountants and other professional advisors.

### **Competition**

There is strong competition in the finance industry which could mean the margins which the Company can earn may be reduced which would impact on the future profitability of the Company.

### **Solvency Risk**

This is the risk that the Company may for any reason not be able to pay its debts as they fall due.

### **Reinvestment Risk**

During the past three years, there have been a number of finance companies placed in receivership or subject to other insolvency and wind down procedures. In general, these finance companies have failed because of poor lending practices and poor governance. In addition, offshore markets have been affected by the subprime mortgage issues which have also raised concerns regarding management of liquidity for New Zealand finance companies. Both of these issues have resulted in a decrease in confidence by investors in the finance company sector in New Zealand. Additional finance company collapses could further erode confidence in this sector, increasing the risk of viability of well managed prudent finance companies, in relation to their ability to continue to obtain funding to repay debenture stock

as and when it becomes due. The Company is carefully managing its liquidity risk through rigorous control over its lending and cash management.

The Company expects reinvestment rates and new investment rates to be impacted if the Company does not obtain cover under the extended New Zealand Deposit Guarantee Scheme. The Company has forecasted that it requires reinvestment rates to remain at approximately 50% in the next 12 months to remain cashflow positive. The First Ranking Debt Instrument reinvestment rate for the financial year ended 31 March 2009 was 52.5%, while the First Ranking Debt Instrument reinvestment rate from 1 April 2009 to 31 August 2009 was 78.5%. The Company considers the current level of Debt Instrument reinvestment to be quite manageable from a liquidity perspective.

### **Operational Risk**

Operational risk is the risk arising from human error, internal process and system failures, or inadequate procedures and controls. It is also includes legal risk (including, for example, a deposit taker's exposure to fines, penalties or damages) and risks arising from money laundering.

Operational risk can arise from:

- Deficiencies in information systems;
- Technological or physical failures;
- Breaches in internal controls;
- Fraud or other criminal activities; and
- The loss of key personnel.

The Company mitigates its exposure to operational risk by:

- Effective segregation of duties;
- Delegated authorities;
- Business continuity planning;
- Internal review activities;
- Regular independent reviews of information technology systems; and
- Regular ongoing staff training and succession planning.

### **Specific Industry Risks**

#### **Exposure to specific industry sectors**

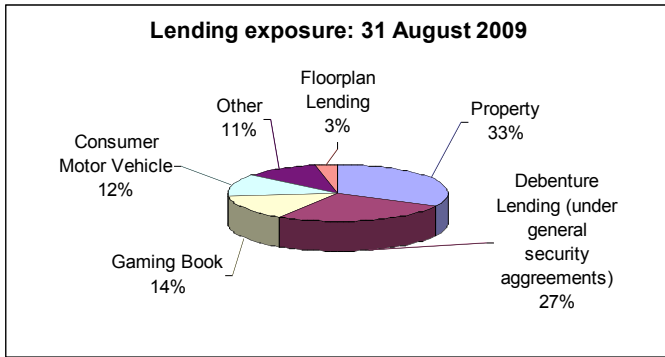
The largest area of exposure for the Company as at 31 August 2009 was property lending secured by property (by way of mortgages and caveats) which represented approximately 32.4% of the Company's loan portfolio. From time to time the Company funds property development projects for selected customers who have a good track record in the industry and the property lending percentage referred to above includes the property development loans granted by the Company (which comprise 14.9% of the Company's loan portfolio). Accordingly, the Company has some exposure to a downturn in the property sector which could impact on the value of the property which is taken as security. This risk is managed by lending to specified levels of the property's market value (or percentage of completion thereof), and requiring levels of pre-sales where appropriate. Also, as at the date of this Investment Statement, the property development loans granted by the Company are all performing loans and have not been restructured.

The next largest area of Company exposure as at 31 August 2009 was lending (under specific and general security agreements) to businesses operating in a variety of industries which represented approximately 26.6% of the Company's loan portfolio; followed by lending to the Gaming Trusts to facilitate the purchase or upgrade of gaming machines or the fit out of gaming rooms in authorised premises, which represented approximately 14.4% of the Company's loan portfolio.

As at 31 August 2009 the Company's exposure to consumer motor vehicle lending comprised approximately 12.2% of the Company's loan portfolio. In addition, the Company had a

further 3.4% exposure to the motor vehicle industry at that date by way of motor vehicle dealer floorplan lending.

Other than as set out above, there are no other industry categories which represent more than 10% of the Company's loan portfolio.



### **Priority Risk**

This is the risk that, after repaying outstanding indebtedness owed to holders of prior charges, other interests given preference by law and amounts owed to the Trustee (or a receiver) under the Trust Deed, the Company may have insufficient funds to repay in full the principal sum invested by Debt Instrument Holders and/or the interest payable to Debt Instrument Holders on the principal sum.

This risk is greater for holders of Second Ranking Debt Instruments who rank immediately behind holders of First Ranking Debt Instruments. That means holders of First Ranking Debt Instruments will be paid the principal and interest they are owed first and in priority to the principal and interest owed by the Company to the holders of Second Ranking Debt Instruments.

As at 31 March 2009, the Company had \$1.15 of tangible assets (\$1.33 as at 31 March 2008) for every \$1 of Debt Instruments invested. The ratio as at 31 August 2009 remains at \$1.15 of tangible assets for every \$1 invested.

### **Consequences of insolvency**

Investors will not be liable to pay any further money as a result of the Company becoming insolvent.

#### *Claims which rank ahead of Debt Instrument Holders*

The only claims that would rank ahead of the claims of the Debt Instrument Holders if the Company was liquidated or wound up, are claims of the holders of any prior charges permitted under the Trust Deed, fees, expenses and other amounts owed to the Trustee and any other claims given priority by operation of law such as claims for liquidation costs, taxes and employees wages.

As at 31 March 2009, the only security interest which ranks ahead of the security interest granted in favour of the Trustee for the benefit of the Debt Instrument Holders, is a security interest over all the assets of the Company granted to ANZ National Bank Limited which secures all the Company's obligations to ANZ National Bank Limited. The only facility that the Company has with ANZ National Bank Limited is a \$500,000 overdraft facility. As at the date of this Investment Statement, no amounts were drawn down by the Company under such overdraft facility.

Further, by virtue of a deed of priority between the Company, ANZ National Bank Limited and the Trustee, the amount for which the security interest granted to ANZ National Bank Limited has priority ahead of the security interest granted in favour of the Trustee for the benefit of the Debt Instrument Holders is limited to \$500,000 plus 24 months' interest and costs.

Also, any unpaid Trustee fees will rank ahead of the claims of Debt Instrument Holders.

In addition, as at the date of this Investment Statement, the Company has not granted, and may not grant without the prior written consent of the Trustee, any charges or security interests over its assets which rank equally with the security interest granted in favour of the Trustee for the benefit of the Debt Instrument Holders.

#### *First Ranking Debt Instruments*

If the Company is liquidated or wound up the claims of holders of First Ranking Debt Instruments will rank in point of security equally with the claims of all other holders of First Ranking Debt Instruments, including those who invested in First Ranking Debt Instruments pursuant to earlier or subsequent investment statements and prospectuses and First Ranking Debt Instruments issued as security for bank overdrafts, commercial loans and commercial bills (called Variable Secured Debt Instruments). No Variable Secured Debt Instruments are on issue at the date of this Investment Statement.

As at 31 August 2009, the aggregate amount of First Ranking Debt Instruments on issue was \$19,065,222.

#### *Second Ranking Debt Instruments*

The Second Ranking Debt Instruments issued under the Prospectus will rank in point of security immediately after all First Ranking Debt Instruments (including Variable Secured Debt Instruments and all First Ranking Debt instruments issued under the Prospectus (or earlier or subsequent investment statements and prospectuses)), equally with all other Second Ranking Debt Instruments issued by the Company and ahead of all unsecured debt instruments and subordinated debt instruments. This means that, subject to any security interests which rank ahead of the Debt Instruments, and other interests given preference by law, all money received by the Trustee from enforcement of the security interest created by the Trust Deed for the benefit of Debt Instrument Holders will be held and applied (in broad terms):

- 1 firstly, in payment of amounts owed to the Trustee;
- 2 secondly, in payment of principal and interest owed to the holders of First Ranking Debt Instruments; and
- 3 thirdly, in payment of principal and interest owed to holders of Second Ranking Debt Instruments.

The aggregate amount of First Ranking Debt Instruments on issue as at 31 March 2009 was \$16,468,005 (\$19,065,222 as at 31 August 2009). Under this Investment Statement, the Company can issue a further \$20 million of First Ranking Debt Instruments, all of which would rank ahead of the Second Ranking Debt Instruments.

As at the date of the Prospectus, no Second Ranking Debt Instruments are on issue.

As at 31 March 2009, the Company had \$1.15 of tangible assets (\$1.33 as at 31 March 2008) for every \$1 of Debt Instruments invested. The ratio as at 31 August 2009 remains at \$1.15 of tangible assets for every \$1 invested.

## Can the investment be altered?

### General

Investments in Debt Instruments are for a fixed term and, except as set out below, cannot be altered by the investor or by the Company.

### Alteration of investment under the Trust Deed

The Trust Deed permits the Company by prior arrangement with Debt Instrument Holders to alter any of the terms and conditions attached to Debt Instruments provided such alteration is not inconsistent with the provisions of the Trust Deed.

The Company and the Trustee may amend the Trust Deed if the amendment is (in broad terms):

- (a) in the opinion of the Trustee, required to correct a manifest error, is of a formal, technical or administrative nature;
- (b) in the opinion of the Trustee, necessary to ensure the Company's obligations under the Trust Deed do not conflict with any other applicable statutory provisions;
- (c) in the opinion of the Trustee, convenient to obtain or maintain quotation of the Debt Instruments on any stock exchange;
- (d) in the opinion of the Trustee, made to comply with the requirements or any modification of the requirements of any applicable law;
- (e) in the opinion of the Trustee, permitted by the terms of the Debt Instrument;
- (f) in the opinion of the Trustee, appropriate and reasonable in all the circumstances and is not likely to have a material adverse effect on the Company or be materially prejudicial to the general interests of Debt Instrument Holders;
- (g) amend the Company's obligations under the Trust Deed to align with any exemption applicable to the Company under the Securities Act, Financial Reporting Act or the Companies Act and, in the opinion of the Trustee, is not likely to have a material adverse effect on the Company or be or become materially prejudicial to the general interests of Debt Instrument Holders;
- (h) (in relation to the terms and conditions on which the Debt Instrument is issued) notified to all Holders of that class of Debt Instrument at least 30 days prior to the date on which the change becomes effective and that Debt Instrument can be redeemed by the Holders prior to that date without penalty; or
- (i) authorised by an extraordinary resolution of the Debt Instrument Holders.

The Trustee may also temporarily vary the terms and conditions of any Debt Instrument for such period and on such terms as:

- (a) the Trustee may deem appropriate, if satisfied that the interests of the Debt Instrument Holders generally will not be materially prejudiced;
- (b) may be agreed by the Trustee for the reasons outlined in paragraph (g) above; or
- (c) may be approved by an extraordinary resolution of the holders of the relevant class of Debt Instrument.

In addition, if an event of enforcement occurs under the Trust Deed, the Debt Instruments may be repaid prior to the term selected by the investor.

### **Alteration by investor**

The Company may, in its discretion on the application of an investor, consider repayment of an investment before maturity for exceptional circumstances, such as extreme financial hardship, emergency, the death of an investor or other similar circumstances. In the event the Company agrees to such early withdrawal, an early repayment charge in the form of a reduction of up to 4% of the interest rate that would have been applicable if the investment had run its full term, may apply. This charge will be deducted from the amount payable to the investor on early repayment.

As at the date of this Investment Statement, the Company's policy is to permit trustees of superannuation funds to withdraw in any calendar year up to 25% of the amount invested (subject to payment of the early repayment charge).

## **How do I cash in my investment?**

### **Maturity**

Investors will be contacted by the Company prior to the maturity date of an investment and given the option to either reinvest for a further period (in whole or in part) or withdraw their investment (in whole or in part). Repayment of any amount requested will be made by direct credit or cheque dependent on the investor's instructions to the Company on the application form.

If an investor chooses to reinvest for a further period, the investor will be asked to sign a reinvestment form and decide on a term, rate of interest (from those applying at the time of reinvestment), interest payment option and type of investment.

If no advice is received from the investor the investment will continue to have the same security status as the Debt Instrument that has matured except that the investment will be held on the Company's then current "on-call" interest rate until instructions are received from the investor.

### **Early termination**

In exceptional circumstances (such as extreme financial hardship, emergency, the death of an investor or other similar circumstances) the Company may, in its discretion, on the application of an investor, consider repayment of an investment before maturity. If any such early repayment is agreed to by the Company then an early repayment charge in the form of a reduction of up to 4% per annum of the interest rate originally payable on the investment calculated over the term, may apply. This charge will be deducted from the amount payable to the investor on early repayment.

As at the date of this Investment Statement, the Company's policy is to permit trustees of superannuation funds to withdraw in any calendar year up to 25% of the amount invested (subject to payment of the early repayment charge).

The Company will not ordinarily terminate, cancel, surrender or otherwise make payment to investors other than as described above in the section titled "What returns will I get?". However, as noted above, in certain limited circumstances, the terms and conditions of Debt Instruments may be altered (which may include, or give rise to a right of, early termination) and, if an event of enforcement occurs under the Trust Deed, the Debt Instruments may be repaid prior to the term selected by an investor.

## **Right to sell securities**

The Debt Instruments may be transferred or sold by an investor. The transfer must be in the form commonly used for security transfers. No fee is payable for the registration of transfers by the Company.

The Company does not consider there to be an established market for transfers of Debt Instruments. Investors should consider that any investment in Debt Instruments will be for the full term.

## **Who do I contact with enquiries about my investment?**

Enquiries about the Debt Instruments offered under this Investment Statement should be directed to:

The Finance Manager  
Mutual Credit Finance Limited  
Level 5  
127 Armagh Street  
PO Box 130 178  
Christchurch 8141

Telephone: (03) 968 8800  
Facsimile: (03) 968 8804  
Email: [contactus@mcf.co.nz](mailto:contactus@mcf.co.nz)

## **Is there anyone to whom I can complain if I have problems with the investment?**

Any complaints about the Debt Instruments can be made to:

- (a) the Company itself at:

The Finance Manager  
Mutual Credit Finance Limited  
Level 5  
127 Armagh Street  
PO Box 130 178  
Christchurch 8141

Telephone: (03) 968 8800  
Facsimile: (03) 968 8804  
Email: [contactus@mcf.co.nz](mailto:contactus@mcf.co.nz)

- (b) the Trustee at:

Trustees Executors Limited  
Level 5  
10 Customhouse Quay  
Wellington

Telephone: (04) 495 0999  
Facsimile: (04) 496 2952

Additionally, investors may wish to contact their solicitors or other professional advisers to discuss any concerns the investor may have.

There is no ombudsman to whom complaints can be made about the Debt Instruments.

## What other information can I obtain about this investment?

### Prospectus and Financial Information

Further information about the Company and the Debt Instruments is contained in the Company's latest Prospectus and financial statements. A copy of the current Prospectus dated 29 September 2009 and most recent financial statements of the Company are available free of charge from:

The Finance Manager  
Mutual Credit Finance Limited  
Level 5  
127 Armagh Street  
PO Box 130 178  
Christchurch 8141

Telephone: (03) 968 8800  
Facsimile: (03) 968 8804  
Email: [contactus@mcf.co.nz](mailto:contactus@mcf.co.nz)

The current registered Prospectus (including the latest financial statements and the material contracts referred to in this Investment Statement), the Trust Deed and other documents of or relating to the Company (including the Company's constitution) are filed on a public register which may be inspected on the Companies Office website at [www.companies.govt.nz](http://www.companies.govt.nz). Copies may also be obtained by telephoning the Companies Office Contact Centre on 0508 266 726. A prescribed fee may be charged for a requested document.

### Annual information

There is no information which will be given to investors annually.

### On request information

You are also entitled to request from the Company (which request must be made in writing to the Finance Manager at the address set out above) the documents, information and other matters that are listed in regulation 23A of the Securities Regulations 1983, the relevant items of which can be summarised as follows:

- 1 a copy of the most recent annual report of the Company;
- 2 a copy of the most recent financial statements of the Company, together with all documents that are required to be registered with those financial statements;
- 3 a copy of the Trust Deed, together with all amendments to the Trust Deed;
- 4 a copy of the most recent prospectus, together with copies of any documents registered under the Securities Act 1978 for the purpose of extending the period during which allotments may be made under that prospectus; and
- 5 a copy of the most recent investment statement.

Copies of the above documents are also available for inspection at the offices of the Company at Level 5, 127 Armagh Street, Christchurch by appointment during usual office hours. There is no charge for this information with the exception of the Trust Deed which will be provided on payment of the prescribed fee of \$30.00.

## Other material matters

### Material contracts entered into by the Company

The only material contract that has been entered into by the Company in the 2 years preceding the date of this Investment Statement (outside the ordinary course of business) is an agreement relating to the sale of gambling book debts with Brett Michael Chambers and Paul Jason Munro as receivers of Mascot Finance Limited (In Receivership) dated 29 May 2009 under which the Company acquired that company's residual gaming trust loan book. The purchase price for such loan book was \$1,474,181.37, which represented the face value of the loan book and settlement of the sale and purchase occurred on 29 May 2009.

### Breach of bank covenants

Under the Company's previous banking arrangements the Company was in breach of certain financial covenants for the period up until September 2008. Such breaches were waived by ANZ National Bank Limited and the ANZ National Bank Limited agreed that the financial covenants were suspended pending full repayment of the Company's flexible facility. Such facility was repaid in full by the Company at 31 March 2009.

In order to mitigate liquidity risk and to retain flexibility however, the Company entered into an overdraft facility agreement with ANZ National Bank Limited dated 20 March 2009 for an overdraft facility of \$500,000, which became available to MCF on 2 July 2009. The facility is repayable by the Company on demand by ANZ National Bank Limited.

The overdraft facility agreement is secured by a general security agreement granted by the Company to ANZ National Bank Limited dated 22 June 2009 under which the Company granted ANZ National Bank Limited a security interest in all the Company's assets.

By a deed of priority (PPSA and Non-PPSA – First Party Secured Amount Comprising One Part) dated 2 July 2009 between the Company as debtor, ANZ National Bank Limited as first secured party and the Trustee as second secured party, the security interest granted to ANZ National Bank Limited has priority over the security interest held by the Trustee on behalf of holders of Debt Instruments, up to the sum of \$500,000 plus 24 months' interest and costs.

### Related Party Transactions

John A Wheelans and Andrew M Oorschot who are Directors of the Company are also Directors of Ashton Wheelans & Hegan Limited, Chartered Accountants, which provides accounting and administration services to the Company for reward under an annual contract on normal commercial terms, which is renewable at the commencement of each financial year. The total amount paid during the year to 31 March 2009 was \$90,284 (March 2008: \$94,588).

From time to time the Company makes loans to related parties in the ordinary course of business. This lending is on the basis of an arms length transaction as between unrelated parties. The balance owing by related parties at 31 March 2009 was \$1.99 million (31 March 2008 \$1.50 million). More detailed information in respect of loans made to related parties is set out in the attached schedule.

The Company also accepts deposits from related parties. These deposits are on the basis of arms length transactions between unrelated parties. The deposit balance owing to related parties as at 31 March 2009 was \$710,025 (31 March 2007 \$111,074). Interest paid on those deposits totalled \$100,982 for the financial year ended 31 March 2009 (\$12,719 for the financial year ended 31 March 2008).

John A Wheelans and Andrew M Oorschot, who are directors of the Company, are also directors and shareholders of National Credit Corporation Limited (formerly Mutual Credit Collections Limited) (NCC).

**Sale of Receivables**

The Company has entered into the following receivables purchase agreements with NCC:

- (a) on 10 June 2008, under which NCC agreed to acquire receivables with a face value of \$533,147 at a purchase price of \$1 which was paid on the date of the agreement (these loans having been previously fully provided for and therefore having no future value to the Company);
- (b) on 29 August 2008, under which NCC agreed to acquire receivables at a purchase price equivalent to the full face value of \$94,620, which was paid on the date of the agreement;
- (c) on 29 July 2009, under which NCC agreed to acquire receivables with a face value of \$533,147 at a purchase price of \$1 which was paid on the date of the agreement (these loans having been previously fully provided for and therefore having no future value to the Company);
- (d) on 29 July 2009, under which NCC agreed to acquire receivables with a face value of \$515,669 at a purchase price of \$1 which was paid on the date of the agreement (these loans having been fully provided for and therefore having no future value to the Company); and
- (e) on 19 August 2009, under which NCC agreed to acquire receivables with a face value of \$249,298 at a purchase price of \$1 which was paid on the date of the agreement (these loans having been previously fully provided for and therefore having no future value to the Company).

**Purchase of Receivables**

From time to time, the Company buys from NCC parcels of loans that have regular payment arrangements. The loans acquired from NCC represent loans that have previously been written off by the Company or by a third party who NCC has acquired the loan from, but in respect of which NCC has been able to put in place repayment arrangements with the debtor. The performing loan is then sold to the Company at fair value, based on the present value of the future cashflows.

On 31 March 2008, the Company purchased from NCC, receivables with a face value of \$1,167,375 negotiated from a parcel of loan receivables NCC had acquired from a third party. The fair value of these loan receivables based on the present value of the future cash flows was considered to be \$750,000 which is the purchase price paid by the Company to NCC on 14 April 2008. These loan receivables have been classified as an investment in "other receivables" under "Other Assets" in the 31 March 2008 financial statements (see note 12 to those financial statements).

Further parcels of loan receivables were purchased by the Company from NCC on a similar "fair value" basis on:

- (a) 24 July 2008, being receivables with a face value of \$353,662, purchased for \$232,506 (which was paid on 25 July 2008);
- (b) 29 August 2008, being receivables with a face value of \$127,099, purchased for \$94,620 (which was paid on 29 August 2008);
- (c) 26 November 2008, being receivables with a face value of \$136,595, purchased for \$100,819 (which was paid on 26 November 2008);
- (d) 15 May 2009, being receivables with a face value of \$164,076, purchased for \$104,167 (which was paid on 15 May 2009); and

- (e) 31 August 2009, being receivables with a face value of \$86,529, purchased for \$37,570.67 (which was paid on 31 August 2009).

The purchase price of the above receivables were the fair value of the loan receivables based on the present value of future cashflows. The purchase price of the receivables is the value initially recorded in the relevant accounts of the Company. As the loans are subject to repayment arrangements, there is money being received regularly to be applied to these loans. At the end of each month, the outstanding loan balance is re-valued to the then present value of the future cashflows in line with the purchase price calculation.

## SCHEDULE

### LOANS TO RELATED PARTIES

John A Wheelans and John W Wheelans, who are directors of the Company, are also directors of Mutual Credit Leasing Limited, and are trustees of trusts which own the shares in Mutual Credit Leasing Limited which borrows funds from the Company to fund its leasing business. This lending is on normal commercial terms.

Philip L Wheelans (who was a director of the Company until March 2007) is a director of Phil Wheelans Commercials Limited in which more than half of the share capital is owned by P L Wheelans and/or the P L Wheelans Family Trust. This company has secured commercial borrowings from the Company pursuant to normal commercial terms.

John A Wheelans and Andrew M Oorschot who are directors of the company are also directors and shareholders of National Credit Corporation Limited (formerly Mutual credit Collections Limited) which has a secured loan on normal commercial terms repayable on demand at an interest rate of 12.15% p.a.

The total amount outstanding as at the end of the two most recent financial years of the Company with respect to loans to related parties is as follows:

	<b>31-Mar-09</b>	<b>31-Mar-08</b>
	<b>\$</b>	<b>\$</b>
Loans to directors	-	-
Loans to entities controlled by directors	1,601,036	550,717
Other short term amounts owed by entities controlled by directors under receivables purchase agreements	-	525,339
Loans to entities controlled by family members	392,327	428,905
	<u>1,993,363</u>	<u>1,504,961</u>

All related party loans are on normal commercial terms with interest payable at rates between 11.75% and 18.00% per annum as at 31 March 2009 (11.75% to 18% as at 31 August 2009).

No amounts owed by related parties have been written off or forgiven during the year ended 31 March 2009, or are within the impaired asset categories (31 March 2008 \$Nil).

Total interest earned from related party transactions for the year ended 31 March 2009 was \$201,471 (31 March 2008: \$226,185).

